- provision of in-region interLATA telecommunications services
- provision of interLATA information services (both in-region and out-of-region)
- provision of a service that permits a customer to store information in or retrieve information from BOC-owned (or BOC affiliate-owned) information storage facilities located in a LATA different than where the customer is located
- manufacturing of telecommunications equipment and CPE

The exceptions (in which a BOC may provide an interLATA service, or engage in manufacturing-related activities, without the requirement of a separate affiliate) are:

- provision of interLATA telecommunications services (but not interLATA information services) previously authorized by the Modified Final Judgment (MFJ);
- the following "incidental" interLATA services:
  - audio/video programming
  - two-way interactive video or Internet services over dedicated facilities to elementary and secondary schools
  - commercial mobile services
  - alarm monitoring services
  - provision of signaling information related to telephone exchange/exchange access services provided by a local exchange carrier
  - provision and receipt of interexchange carrier network control signaling information
  - research related to manufacturing, close collaboration with manufacturers during the design and development phase, and entering into royalty agreements with manufacturers

IV. Structural and Transactional Requirements

The separate affiliate must be structurally and transactionally separate from any BOCs with which it is affiliated. There are several aspects to this separation requirement:

First, the separate affiliate must "operate independently" from the BOC. The intent of this requirement is to prevent a BOC from integrating its local exchange and exchange access operations with its separate affiliate's activities to such an extent that the affiliate could not reasonably be found to be operating independently. Activities that are prohibited by this requirement are:

- A BOC and its separate affiliate may not jointly own any transmission and switching facilities, nor the land or buildings where such facilities are located.

- Neither a BOC nor any affiliate of a BOC (other than a separate affiliate) may perform any operating, installation or maintenance (OIM) functions associated with facilities that the separate affiliate owns or leases from a provider other than the BOC.

- The separate affiliate may not perform any OIM functions associated with the BOC's facilities.

The "operate independently" requirement permits certain activities. For example:

- The separate affiliate may negotiate with the BOC on an arm's length and nondiscriminatory basis to obtain telecommunications services or transmission and switching facilities (e.g., unbundled elements) from the BOC.

- A BOC may provide to, or obtain from, the separate affiliate, goods, services, facilities, and information other than OIM services (e.g., marketing and sales, administrative and support services, and collocation), but any such services provided by the BOC to the separate affiliate -- except marketing and sales services -- must be made available to other entities on a nondiscriminatory basis at the same rates, terms and conditions as provided to the separate affiliate. (A BOC may provide marketing and sales services to the separate affiliate on an exclusive basis). Any decision by a BOC to obtain goods, services, facilities, and information from a separate affiliate must be made on a nondiscriminatory basis.

Second, the separate affiliate must maintain books, records, and accounts that are separate from the books, records, and accounts of the BOC.

Third, the separate affiliate must have officers, directors, and employees that are separate from the officers, directors, and employees of the BOC. This means that the same person may not simultaneously serve as an officer, director or employee, in any combination, of both a BOC and its separate affiliate.

Fourth, the separate affiliate may not obtain credit under any arrangement that would permit a creditor, upon the separate affiliate's default, to have recourse to the assets of the BOC. No BOC, parent of a BOC, or any other affiliate of a BOC may co-sign a contract or any other instrument with the separate affiliate that would grant a creditor recourse to the BOC's assets in the event of default by the separate affiliate.

Fifth, transactions between the separate affiliate and a BOC must be conducted on an arm's length basis, reduced to writing, and made available for public inspection. Among other things, this means that a BOC must not conduct business with its separate affiliate without a written contract or tariff. In addition, within 10 days of a transaction, the separate affiliate must provide on its Internet home page a detailed description of the asset or service transferred and the terms and conditions of the transaction; the information also must be made available for public inspection at the BOC's principal place of business.

V. Nondiscrimination Requirements

Several nondiscrimination requirements are meant to ensure that a BOC treats all other entities in the same manner as it treats its separate affiliate.

More specifically, outside of limited exceptions related to the marketing and sale of interLATA services, a BOC may not discriminate in favor of its separate affiliate regarding either the <u>provision</u> or <u>procurement</u> of "goods, services, facilities and information." Accordingly, a BOC must provide to entities that provide services similar to the separate affiliate the same "goods, services, facilities and information" that it provides to its separate affiliate, at the same rates, terms and conditions. This quoted phrase is <u>broadly</u> interpreted. It encompasses, but is not limited to:

- unbundled network elements
- collocation of equipment, facilities, or employees
- network information
- customer proprietary network information (CPNI) (the FCC has not yet determined how this nondiscrimination obligation will apply to CPNI)
- administrative and support services (<u>e.g.</u>, human resources/accounting/tax)
- access to operational support systems
- transfers of ownership of facilities
- development of new services

For example, employees who have access to and use BOC information, may not share that information with a 272 affiliate or use that information to benefit a 272 affiliate, unless the BOC makes the information available to third parties. (Because the FCC has not yet determined how the nondiscrimination rule applies to CPNI, the rules relating to CPNI may differ. You should check with your supervisor or the legal department before sharing CPNI with a 272 affiliate.) These rules relating to information use and sharing apply whether the employee works for a BOC or another affiliate. In addition, if such an employee transfers to a 272 affiliate, no BOC information may be transferred or used in the new job.

Under the procurement nondiscrimination requirement, a BOC is subject to an unqualified prohibition against discrimination between its separate affiliate and an unaffiliated entity in the procurement of goods, services, facilities, or information. For example, a BOC may not purchase manufactured network equipment solely from its separate affiliate, purchase equipment from its separate affiliate at inflated prices or give any preference to the affiliate's equipment in the procurement process.

A BOC also may not discriminate between its separate affiliate and other entities in the establishment of standards. A BOC may not establish or adopt any standard -- "industry-wide" or otherwise -- that has the effect of favoring the separate affiliate and disadvantaging an unaffiliated entity. The FCC has indicated that, with respect to "industry-wide" standards, an open and nondiscriminatory public process in which all interested parties have an opportunity to participate (as required by Section 273), will be sufficient to satisfy this nondiscrimination requirement. However, standards established by a BOC in some other manner that have the effect of favoring the separate affiliate and disadvantaging an unaffiliated entity will be a violation of this nondiscrimination requirement.

Finally, there are several nondiscrimination requirements applicable to the "fulfillment of certain requests." Under these requirements a BOC (<u>or</u> any affiliate of a BOC that is an incumbent local exchange carrier):

- must fulfill any unaffiliated entity's requests for telephone exchange service and exchange access within a response time no greater than the response time it provides to itself or its affiliates, and make available to unaffiliated entities information regarding the service intervals provided to themselves or their affiliates. (The FCC has not yet determined what information must be provided or how it must be provided, but its Notice of Proposed Rulemaking indicates that the reporting requirement will be quite broad.)

- must not provide any facilities, services or information concerning its provision of exchange access to its separate affiliate unless the facilities, services or information are made available to other providers of interLATA services in that market on the same terms and conditions.

- must charge the separate affiliate, or impute to itself, an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carrier. A BOC's volume and term discounts are subject to this requirement. A separate affiliate's purchase of telephone exchange service and exchange access at tariffed rates, or a BOC's imputation of tariffed rates, would meet this requirement.

- may provide to its separate affiliate any interLATA or intraLATA facilities or services which it is otherwise authorized to provide (e.g., the incidental interLATA services described above) if the facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

VI. Accounting Requirements

A BOC must account for all transactions with the separate affiliate in accordance with the FCC's accounting rules. Generally, these rules provide that:

- Assets or services sold or transferred between a BOC and its separate affiliate pursuant to a tariff must be recorded at the tariffed rate. Rates in publicly filed interconnection agreements or statements of generally available terms and conditions may be used if a tariff rate is not available.

- Non-tariffed assets or services sold or transferred between a BOC and its separate affiliate that qualify for a prevailing price must be recorded at the prevailing price. Prevailing price is a technical term. Please consult your supervisor or the legal or regulatory departments if you need further information about the application of the prevailing price rule in transactions between a BOC and its separate affiliate.

- All other assets sold or transferred by a BOC to its separate affiliate must be recorded at the higher of fair market value (FMV) and net book cost. All other assets purchased by or transferred to a BOC from its separate affiliate must be recorded at the lower of FMV and net book cost.

- All other services provided by a BOC to its separate affiliate must be recorded at the higher of FMV and fully distributed cost (FDC). All other services provided by a separate affiliate to a BOC must be recorded at the lower of FMV and FDC.

In addition, the Act requires that a BOC pay for biennial audits of compliance with the requirements of Section 272. The audits will be conducted by an independent auditor under the direction of federal and state regulators.

VII. For More Information

Every effort has been made to ensure that this employee guide will answer any general questions you may have, but there may be occasions where either no answer is provided to your specific question or the answer may be unclear even after you refer to this guide.

In addition, this guide provides information accurate as of the date of its release. However, some of this information is based on FCC rulings that members of the industry either have asked the FCC to reconsider or have challenged in the courts.

Therefore, you are encouraged to direct any questions you may have either to your supervisor or to your company attorney, particularly where this guide is relied on to make substantive decisions regarding interactions between BOCs and separate affiliates. Your Legal Department will also ensure that, if and when the requirements detailed in this guide may change, it will be updated.

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AFFIDAVIT OF ROBERT C DAUFFENBACH

I. BACKGROUND AND PURPOSE

Q. WHAT IS YOU NAME AND BUSINESS ADDRESS?

A. My name is Robert C Dauffenbach My business address is the Center for Economic and Management Research. College of Business Administration, University of Oklahoma Norman Oklahoma, 73019

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION WITH YOUR EMPLOYER?

A. I am employed by the University of Oklahoma as Director of the Center for Economic and Management Research and as Professor of Management. I also hold the title of Professor of Economics.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I received my B.A. and M.A. degrees in economics from Wichita State University and my Ph.D. in economics from the University of Illinois at Urbana-Champaign in 1973. I have served on the faculties of Wayne State University and the University of Illinois prior to coming to Oklahoma. I joined the faculty at Oklahoma State University in 1977 and served as Director, Office of Business and Economic Research. 1985-1990 In the fall of 1990 I assumed duties as Director Center for Economic and Management Research. University of Oklahoma

Q. WHAT IS THE CENTER FOR ECONOMIC AND MANAGEMENT RESEARCH AT THE UNIVERSITY OF OKLAHOMA?

A. The Center for Economic and Management Research (CEMR) has almost a 70 year history of serving the people of the State of Oklahoma by engaging in economic analysis policy review, and primary and secondary data collection activities related to the state's economy. It publishes the monthly *Oklahoma Business Bulletin* and annually the *Statistical Abstract of Oklahoma*. We compute leading indicators of the state's economy, a General Business Index for the state and the major metro areas, and forecasts. CEMR is a storehouse of information on the Oklahoma economy. Staff of CEMR have made numerous and significant contributions to public policy research in Oklahoma. The ORIGINS on-line economic development data base system is operated through CEMR.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked to review the economic impact study prepared by WEFA that estimates the economic benefits to Oklahoma from Southwestern Bell's immediate entry into the long distance market in this state. I am prepared to provide the Commission with my views on the conclusions reached by this study and the procedures by which the conclusions were drawn.

II. ASSESSMENT OF WEFA'S CONCLUSIONS

Q. WHAT ARE THE CONCLUSIONS OF THE WEFA REPORT?

A. WEFA evaluates the impacts of open competition in long-distance service on the Oklahoma economy by comparing a baseline forecast with a simulation that processes reduced long-distance service costs. The differentials in the two forecasts then represent the impacts of Southwestern Bell's entry and resulting increase in long-distance service competition. The WEFA results indicate that by the year 2006 employment will rise by an additional 10,252 jobs above the baseline forecast. Gross State Product, adjusted for inflation, expands by an additional $712 million above the baseline forecast.

Q. IS THE METHODOLOGY SOUND AND DOES THE STUDY ADEQUATELY ADDRESS SPECIAL OKLAHOMA CONDITIONS?

A. I find the system whereby WEFA provides estimates of the economic impacts of freeing competition in the long distance market to be quite elaborate, complete, and impressive. Their system begins with an input-output framework that takes into account relative prices and is capable of factoring in alternative pricing regimes and working out the resulting pricing structures among product groups. Productivity growth and quality are also components of the Industry Analysis segment of the model. The input-output results are then aligned with the US Macroeconomic Analysis model and forecasts are generated and compared with baseline assumptions.

It is especially impressive that their regional economic modeling system is able to provide estimated impacts for regions of a specified state. WEFA makes a point of saying that their regional economic system is designed to pick up the nuances of differential reactions to business cycles among the several states and why states grow or decline relative to each other over the longer run. Each state is modeled individually, as they note, and different modeling structures are specified since the underlying characteristics of the various states differ. Comparative advantages of one state over the other are also modeled.

Q. HOW DOES THE STUDY REACH ITS CONCLUSIONS OF BENEFITS TO THE STATE OF OKLAHOMA?

A. The modeling framework developed by WEFA originates with a top-down view of the US economy to identify state-level impacts. Essentially, a baseline scenario is processed, that does not include the benefits of deregulation. This baseline case is then compared to scenario results that reflect the benefits of deregulation. The difference in the scenario results is then reflective of the net impacts of deregulation. Thorough knowledge of the telecommunications industry is exhibited in their study. The WEFA report does a good job in its report of laying out the base of assumptions that are needed to analyze the impacts of greater competition and lower costs of long-distance services. I believe that they identify many of the important factors that should be considered in an analysis such as this. I especially enjoyed reading the sections of the report on the importance of information and the communications industry.

which explains the important trends in usage of telecommunications services by industry, and why the rates of growth are so high. Assumptions regarding long distance prices, telework and labor force participation are carefully spelled out. In the modeling, WEFA then analyzes the impacts on productivity in the use of information services. They also factor in a growth curve for the Internet.

I am impressed, indeed, with the extent and robustness of the modeling frameworks that are utilized in simulating the impacts of a change in telecommunications prices, or, for that matter, the myriad of simulation activities that could be undertaken with this system. I have no difficulty at all in saying so publicly. This is a very complete and competent structure for analyzing the question at hand by a firm with an international reputation.

Q. ARE THERE ANY ASPECTS OF THE ASSUMPTIONS OR FINDINGS OF THE WEFA STUDY THAT APPEAR UNDERSTATED?

A. To some extent, yes. For whatever reason, WEFA seems to be assuming that the problems that plagued the Oklahoma economy in the 1980s remain with us today and will forever hold the economy down. I suggest that quite the opposite is true. The Oklahoma economy has recovered fully from the energy-bust that hit the economy in 1982 and again in 1986. I include a graphic reporting year-over-year employment gains in the state and contrasting these with gains in the US. The energy crisis is clearly shown on this graphic as a period in which the state did less well than the nation in employment growth, even slipping deeply into negative territory at times. It is also apparent that there are other times, including most recently, when the Oklahoma economy has done much better than the nation in employment growth. This period extended roughly from 1970 through mid-1982. In addition, the 1990-91 recession had less impact on the state than the nation.

A second figure shows national and Oklahoma employment graphed as levels. Here the axes are controlled to pictorially display a least-squares fit of Oklahoma as a function of national employment. This simple regression yields a slope coefficient of 0.0113, indicating that an additional one million jobs nationally implies a growth in Oklahoma jobs of 11,300. The double-log regression yields an elasticity of 1.037, showing that Oklahoma jobs rise about in proportion with that national economy over the long-run. But, in recent times, say 1987 to present, the elasticity has been even higher, at 1.29. Some might argue that that period is too associated with the recovery of the Oklahoma economy. But even the 1989 to present regression yields a high elasticity of 1.25. Thus, for every ten percent gain in jobs nationally, Oklahoma has recently gained 12.5 percent. Over the long pull, if one takes the entire 1967 to present growth in nonagricultural employment into account, the US had grown by 89 percent while Oklahoma has expanded by 104 percent. Over the long run we are doing quite well, and expect to do so in the future, at least in the employment category.

Indeed, if there is one area that has been an obvious growth vehicle for the Oklahoma economy, it is the telecommunications area. The state benefits from Hertz and Avis reservations centers, from a recently installed and expanding Southwest Airlines reservation center, and from America On-Line, a new arrival in town utilizing telecommunications. ITI, Inc., a telemarketing concern, also has a strong foothold in the state. The mere presence of such large scale entities in the state signifies a comparative advantage for Oklahoma in this activity, from which we might even reap a higher benefit with falling prices.

If anything, I think that WEFA has underestimated the impact of Southwestern Bell's entry and free competition, and falling telecommunications prices on a state such as Oklahoma.

Q. WILL THE PUBLIC BENEFIT FROM IMMEDIATE COMPETITION IN LONG DISTANCE SERVICES?

A. The public as a whole always benefits from increased competition, although specific groups may at times be harmed. Generally, long-distance tariffs have been held somewhat high by regulatory bodies in order to generate funds to subsidize basic service to some households who could otherwise, not afford the service. This is an issue that will have to be dealt with, but there is tremendous underlying potential for the Oklahoma economy in inducing competition in this arena. By being early out of the gate, Oklahoma has a tremendous opportunity to capture more telecommunications business and to reap productivity advantages. We can have a more domestically and internationally competitive economy by allowing unrestricted competition in our long distance markets, and specifically, by allowing Southwestern Bell to enter this market. With a more competitive state economy, it is hard to imagine any group or area of the state that will not benefit.

III. SUMMARY

Q. CAN YOU SUMMARIZE YOUR CONCLUSIONS ABOUT THE WEFA STUDY?

A. The WEFA study uses a consistent and robust set of models to examine the impacts on the Oklahoma economy of adopting immediate competition in long distance services The modeling framework builds from the top-down of the US economy to state-level impacts. Thorough knowledge of the telecommunications industry is exhibited in their study and the base of assumptions and mechanisms for increased growth are examined carefully.

The estimated impacts for the Oklahoma economy are. I believe conservative possibly quite conservative Simply put. I disagree with WEFA about the long-term growth potential of the Oklahoma economy Recent growth trends and long-term evidence. I would argue. supports my view. This gives rise to some differences. But, the potential for additional differences also comes about because I am not sure that WEFA has adequately accounted for the telecommunications intensity of the Oklahoma economy. We have comparative advantages. it would appear. in this arena Lower costs could further extend these advantages

WEFA provides us with an internally consistent set of impact estimates That is the advantage of use of their system. To that system. it would seem possible to attach some special features of the regional area that are difficult to impose in a national modeling system. The special features of Oklahoma would, in my view, positively add to the impacts that the WEFA models have generated.

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Robert C. Dauffenbach

Subscribed and sworn to before me this ____ day of January, 1998

____

Notary Public

My commission expires: ____________________

Robert C. Dauffenbach

Subscribed and sworn to before me this ____ day of January, 1998.

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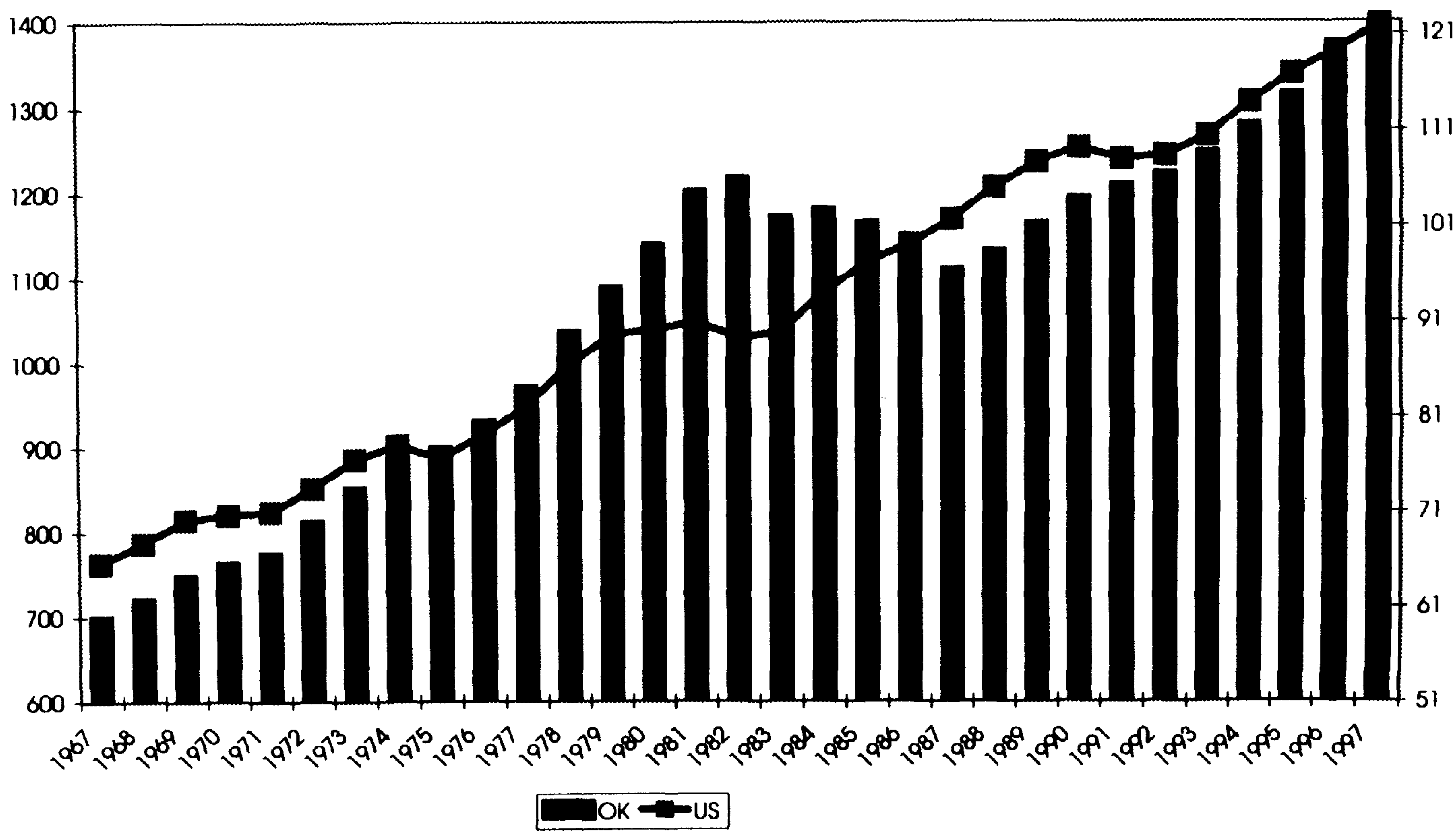
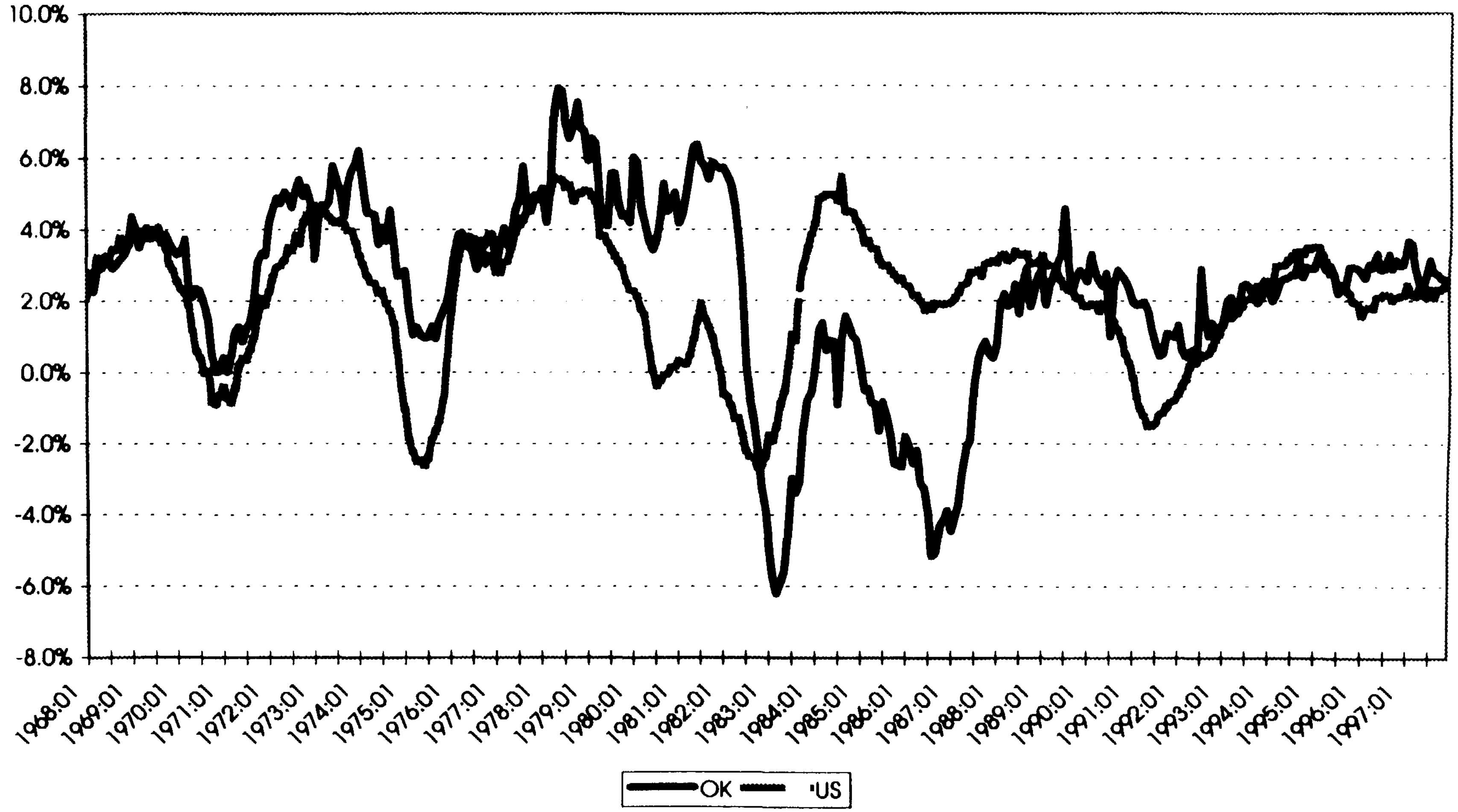
Notary Public

My commission expires:__________________.

Graphical Trend Analysis
US v. OK Nonagricultural Employment
1967-1997



Employment Growth Rates
US v. OK
Year-over-Year Percent Change 1968-1997



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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the matter of	)	
	)	
Application of SBC Communications Inc.,	)	
Southwestern Bell Telephone Company,	)	CC Docket No. _________
and Southwestern Bell Communications	)	
Services, Inc., for Provision of In-Region,	)	
InterLATA Services in Oklahoma	)	

AFFIDAVIT OF KENNETH GORDON

KENNETH GORDON, being duly sworn, deposes and says:

I. STATEMENT OF QUALIFICATIONS

1. I am Senior Vice President of National Economic Research Associates, Inc. (NERA), One Main Street, Cambridge, MA 02142, and have held that position since November of 1995. Immediately prior to that I was Chairman of the Massachusetts Department of Public Utilities, and before that was Chairman of the Maine Public Utilities Commission. I have been an economist since 1965, and since 1980, when I became an industry economist at the FCC, have been directly involved with developing and establishing virtually all aspects of regulatory policy for telecommunications at the federal and state levels. While I was at the Massachusetts commission, that commission undertook a proceeding to examine in detail interconnection and other issues related to the development of competition at all levels of telecommunications. A copy of my curriculum vitae describing my educational and professional background in greater detail is attached.

II. PURPOSE OF AFFIDAVIT

2. SBC Communications Inc. and its subsidiaries Southwestern Bell Telephone Company (SWBT) and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance (SBLD)—collectively, "Southwestern Bell"—seek authority for SBLD to provide in-region, interLATA services in the State of Oklahoma. The central focus of this proceeding is whether allowing SBLD to originate interLATA calls in Oklahoma would benefit Oklahoma customers and would be in the public interest. I conclude that it most certainly would.

3. Up until February of 1996, the Bell Operating Companies (BOCs), including Southwestern Bell, were prohibited—absolutely—from offering interLATA services. Congress fundamentally shifted this policy in the Telecommunications Act of 1996 (Act), which recognizes that maintaining barriers to entry by the BOCs into the interLATA market is antithetical to Congress's pro-competitive policies in telecommunications. The Act lays out the standards and processes for BOCs to enter the interLATA market on a state-by-state basis. This affidavit outlines in detail the reasons why approval of Southwestern Bell's petition for authority to offer interLATA service originating in its region is in the public interest.

4. The first section of the affidavit explains why compliance with the Act's requirements should provide the Commission with considerable confidence that SBLD's offering of interLATA services in Oklahoma will benefit consumers and will not harm competition in either the interLATA market or the local exchange market.

5. The last section of the affidavit considers the potential benefits and the alleged costs of entry in greater detail, and evaluates the Act's "public interest" standard. I then demonstrate that the benefits of allowing SBLD to originate interLATA service in Oklahoma clearly outweigh any plausible risks associated with a local exchange carrier participating in a market for which it supplies an essential input.

III. INTRODUCTION

6. A primary goal of the Act is to allow open competitive entry, by all participants, into all telecommunications markets, including both the local exchange market and the interLATA toll market. In order to accomplish this goal, Congress prescribed the removal of all barriers to entry, whether those barriers are judicial, economic, or regulatory. One of the critical legal entry barriers that Congress targeted for removal was the judicial (MFJ) barrier to Bell Operating Company (BOC) entry into the interLATA marketplace. Congress allowed BOCs to offer out-of-region interLATA services immediately, but provided certain standards that BOCs have to meet—on a state-by-state basis—in order to receive authority from the FCC to originate interLATA service in any in-region state.

7. As a result of SWBT's compliance in Oklahoma with the Act's conditions for interLATA entry, and given marketplace and regulatory conditions in Oklahoma, Southwestern Bell's entry into the interLATA market clearly is in the public interest. Some may argue that the Commission should not grant Southwestern Bell's petition, even if SWBT has met all of the conditions in the Act, because the local exchange market in Oklahoma is not yet subject to "sufficient" competition.[1] Others may argue that the petition should be denied because SWBT's regulated switched access prices currently are set to recover costs over and above those directly incurred in providing switched access service. These parties may advocate that Southwestern Bell's petition not be granted until competitive local exchange carriers have achieved a specified market share or until market forces reduce access charges down to efficient levels. Neither of these arguments should persuade the Commission. As I will discuss in further detail below, each of these arguments is flawed because each is based on the incorrect premise that there cannot be efficient competition and efficient entry during the transition from an industry characterized by monopoly regulation to a fully competitive market. Efficient

[1] The Commission has said that its public interest test will not include a market share litmus test ("We emphasize, however, that we do not construe the 1996 Act to require that a BOC lose a specific percentage of its market share, or that there be competitive entry in different regions, at different scales, or through different (continued...)

competition and entry have occurred in other telecommunications markets, such as cellular and intraLATA toll. Given the ubiquitous regulatory protections that are in place, it will also occur in the interLATA market even where one market participant is, at least for the time being, the largest supplier of an essential input.[2] This remains the case even when that input is priced by regulators to recover more than the incremental cost of access.

8. In addition to reviewing SWBT's compliance with the specific requirements in the Act for BOC interLATA entry, the Commission also must consider whether such entry is in the public interest. The public interest should be judged on the basis of the net benefits customers in Oklahoma would enjoy as a result of having the option available to them of choosing SBLD for their interLATA business. Giving Oklahoma customers the option of choosing SBLD as their interLATA service provider is likely to increase significantly the degree of competition for interLATA services in Oklahoma, and thereby lead to benefits for those customers in the form of lower rates, improved customer service, and more service options. These are the benefits of granting the petition. Theoretical problems are the claim that Southwestern Bell could subsidize the prices charged by its interLATA affiliate with revenues derived from its local exchange services, or discriminate in the provision of local exchange access in favor of its interLATA affiliate.

9. However, as the Commission itself found in its Orders on the Act's accounting and non-accounting safeguards, implementation of the Act's many regulatory safeguards for BOC interLATA entry, coupled with existing state and federal regulation, will be sufficient to prevent Southwestern Bell from pursuing strategies to artificially advantage its affiliate in the

(...continued)

arrangements, before we would conclude that BOC entry is consistent with the public interest." Michigan Order, ¶ 391.)

[2] One observer has remarked: "It is difficult to imagine a regulatory strategy, other than a permanent complete ban on entry into allied markets, for coping with the possibility of predatory cross-subsidization and discriminatory interconnection by Bell operating companies that is not employed, at one point or another, in the 1996 Act." Thomas G. Krattenmaker, *The Telecommunications Act of 1996*, 49 Federal Communications Law Journal 20 (Nov. 1996) (footnote omitted).

interLATA market.[3] Therefore, any likely risks of granting this petition clearly are not sufficient to forego the benefits for Oklahoma customers that will flow from a favorable response to Southwestern Bell's petition.

IV. INTERLATA ENTRY REQUIREMENTS AND PROCESS

10. There are four important points to remember about the process and substantive standards established by Congress for BOC interLATA entry: (1) conditions that must be met before entry are carefully laid out; (2) both operating and compliance standards for continued fair competition are provided; (3) procedures by which interested parties, particularly competitors, can monitor compliance are provided; and (4) regulators are provided with effective tools of enforcement.

11. As a prerequisite to applying for interLATA entry, the Act requires a BOC to have executed "one or more binding [interconnection] agreements that have been approved under section 252," Act, § 271(c)(1)(A), or to have received approval by the State commission of a statement of generally available terms and conditions. Act, § 271(c)(1)(B).

12. Another requirement in the Act for BOC interLATA entry is compliance with the interconnection checklist, which consists of some fourteen requirements. The checklist roughly corresponds to, but in some respects goes beyond, the interconnection requirements in section 251 of the Act. The checklist is a catalogue of those interconnection requirements that Congress deemed to be the necessary and sufficient[4] prerequisites for BOC interLATA entry.

13. The significance of the Act's conditions for entry relate to how they demonstrate the opening of the local exchange to competition. First, Section 253 of the Act eliminates formal entry barriers outright. In addition, by requiring incumbent LECs to resell their offerings at wholesale rates, and to make available to competitors unbundled network elements

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[3] FCC 96-489, Report and Order, CC Docket No. 96-149, ¶ 13. FCC 96-490, Report and Order, CC Docket No. 96-150, ¶ 275.

[4] Congress specifically directed the Commission not to "limit or extend the terms used in the competitive checklist." Act, § 271(d)(4). For a list of the specific requirements, see Section 271 of the Act.